

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 733

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL ZURICH

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E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS FOREIGN EXCHANGE AND GOLD MARKETS

1. IN MAY 21 CONVERSATIONS ZURICH CONSUL GENERAL AND
EMBOFF WERE TOLD THAT RENEWED PRESSURE ON DOLLAR THIS WEEK
DUE PRIMARILY TO MOVEMENTS OUT OF STERLING AND INTO DOLLARS
(LARGELY SUPPLIED BY BANK OF ENGLAND) FOLLOWED BY IMMEDIATE
CONVERSIONS INTO STRONG EUROPEAN CURRENCIES. ONE SOURCE
THOUGHT THIS PATTERN WOULD CONTINUE UNTIL JUNE 5 UK
REFERENDUM. GENERAL EXPECTATION IS DOLLAR WILL STRENGTHEN
OVER LONG TERM BUT MOST ZURICH BANKERS SEEM TO EXPECT
FURTHER UPWARD PRESSURE ON SWISS FRANC IN SHORT RUN.
REDUCTION OF SWISS DISCOUNT AND OTHER INTEREST RATES
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HAS NOT HAD MUCH EFFECT ON INTEREST-SENSITIVE FUNDS

SINCE SIMILAR PATTERN EXISTS ELSEWHERE.

2. IN VIEW APPARENT CAPITAL MOVEMENTS, THERE IS RENEWED EXPECTATION THAT SWISS NATIONAL BANK (SNB) AND GOS MAY INTRODUCE ADDITIONAL REPORTING REQUIREMENTS OR OTHER CONTROLS. IN ADDITION UPWARD PRESSURE ON EXCHANGE RATE, FREQUENT FLUCTUATIONS ALSO MATTER OF CONCERN WHICH HELPS EXPLAIN IN PART STRONG SWISS DESIRE THAT THERE BE SOME RECOGNITION IN CONJUNCTION RENEWAL OECD TRADE PLEDGE THAT THESE CAUSE PROBLEMS (OECD PARIS 11683).

3. SWISS BANKERS SEEM ALSO BECOMING INCREASINGLY CONCERNED AT EXTENT TO WHICH SF IS BEING USED INTERNATIONALLY FOR LOAN TRANSACTIONS WHICH CAN THEN POST DEMAND PRESSURES WHEN REPAYMENTS DUE.

4. ONE SOURCE WHO CLOSELY FOLLOWS GOLD MARKET OFFERED FOLLOWING OBSERVATIONS. WHILE SOUTH AFRICAN PRODUCTION IS DOWN FOR LABOR AND OTHER REASONS AND THERE ARE OCCASIONAL FLUCTUATIONS FROM WEEK TO WEEK IN OFFERINGS, SOUTH AFRICA IS NOT HOLDING BACK CURRENT GOLD FROM MARKET. USSR HAS SUPPLIED VERY LITTLE, IF ANY, GOLD TO MARKET THUS FAR IN 1975. RUMORS HAVE CIRCULATED IN MARKET TO EFFECT THAT FRENCH, GERMAN, AND ITALIAN INSTITUTIONS PREPARED TO BUY GOLD IN \$165 RANGE WHICH, WHETHER TRUE OR NOT, HAS EFFECTIVELY ESTABLISHED FLOOR PRICE. SOURCE DOUBTED THAT IN ABSENCE STRONG RESURGENCE OF INFLATION OR RENEWED INDUSTRIAL REQUIREMENTS THAT THERE WOULD BE MUCH STRENGTHENING OF DEMAND FOR GOLD. CONVERSATIONS TOOK PLACE PRIOR UPWARD MOVEMENT OF GOLD PRICE TO \$175 RANGE MAY 22. DOMINICK

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